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September 12, 2012

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VIA ELECTRONIC FILING

Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Re: Connect America Fund - WC Docket No. 10-90
High-Cost Universal Service Support - WC Docket No. 05-337

Dear Ms. Dortch:

On July 9, 2012, Puerto Rico Telephone Company, Inc. ("PRT") responded to the Wireline Competition Bureau's Public Notice that sought comments on the design and data inputs for Phase II of the Connect America Fund ("CAF"). Specifically, PRT urged the Federal Communications Commission ("Commission") to either: (1) remove Puerto Rico from the CAF Phase II cost model and maintain existing Universal Service Fund ("USF") support for broadband in Puerto Rico; or (2) adopt a separate methodology for Puerto Rico that not only considers "costs" but also the "challenges that differ from those faced by carriers in the contiguous states."¹

As PRT explained, the Commission's proposed one-size-fits-all, forward-looking cost model approach for CAF Phase II—which is based on inputs from the U.S. mainland—simply does not work for Puerto Rico. The proposed model relies heavily on line density and assumes that the take rate for broadband in unserved areas will be comparable to the take rate in served areas with similar density. But, as PRT explained in its comments, no served area in the nation with similar density has demographics that "compare" with Puerto Rico's. Puerto Rico is poorer than any state, and historically this poverty has fostered very low adoption rates for all services. As such, there is a significant portion of costs for which there is simply no recovery. And any "cost model" that fails to account for the reduced ability for Puerto Rican carriers to recover costs due to the impact of affordability on customer take rates is inadequate.

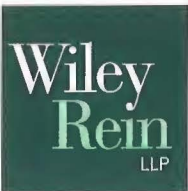
¹ Comments of Puerto Rico Telephone Company, Inc., WC Docket No. 10-90, at 1 (July 9, 2012) (quoting *Connect America Fund*, Report and Order and Further Notice of Proposed Rulemaking, 26 FCC Rcd 17663, ¶ 196 (2011)).

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PRT submits the instant letter to update the record in the CAF Phase II proceeding with troubling data from the recently-released *Eighth Broadband Report*. Data that highlights just how underserved Puerto Rico is compared to the rest of the country:

- 51.6% of Puerto Rico's total population lacks access to fixed broadband, whereas only 6% of the total U.S. population lacks access. (Appendix C)
- 40.3% of Puerto Ricans living in non-rural areas lack access to fixed broadband, whereas 1.8% of the U.S. population living in non-rural areas lacks access. (Appendix C)
- 84.8% of Puerto Ricans living in rural areas lack access to fixed broadband, whereas 23.7% of the U.S. population living in rural areas lacks access. (Appendix C)
- The overall fixed broadband adoption rate for the entire United States is 64% at the 768 kbps/200 benchmark and 27.6% at 6 Mbps/1.5 Mbps. The overall fixed broadband adoption rate for Puerto Rico is 30.5% at the 768 kbps/200 kbps benchmark and 0.0% at 6 Mbps/1.5. (Appendix H)
- 1 out of every 9 Americans without fixed broadband live in Puerto Rico. (Appendix C)

If the FCC chooses to address the broadband issue in Puerto Rico through its "cost model" approach, surely these data underscore the need for adjustments to the model to boost broadband availability on the Island. Alternatively, the data bolster PRT's position that Puerto Rico should not have its high cost USF support based on the proposed CAF Phase II cost model.



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Please direct any questions regarding this filing to the undersigned.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "T. Navin", is written over the text "Respectfully submitted,".

Thomas J. Navin
Counsel for Puerto Rico Telephone Company, Inc.